Euro area bank lending survey of April 2021: main results for Latvia

In April 2021, Latvijas Banka, in cooperation with the European Central Bank (ECB), conducted the euro area bank lending survey on the lending developments during the first quarter of 2021 and bank expectations for the second quarter of 2021. Four Latvian banks whose total market share in lending to non-financial corporations and households is large enough to represent the lending development in Latvia participated in the survey. Their replies have been incorporated in the euro area bank lending survey results.

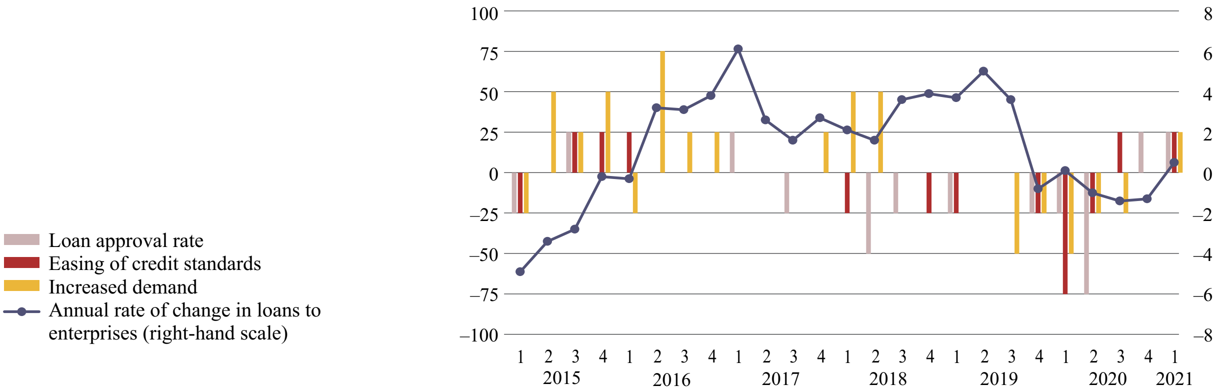
Loans to enterprises

Upon conclusion of the time period whose lending results have been used to calculate the TLTRO III interest rates, in March 2021 Latvian banks were motivated to increase the size of loans to enterprises by easing credit standards and terms and conditions for loans (see Chart 1). The trend was particularly pronounced in the segment of lending to large enterprises. So far, demand for loans to enterprises has rebounded relatively slowly; nonetheless, improvements are expected in the next quarter when the effects of the Covid-19 pandemic on the economy may fade.

Chart 1

CHANGES IN LOAN APPROVAL RATE, CREDIT STANDARDS AND DEMAND AND ANNUAL GROWTH RATE OF LOANS TO ENTERPRISES

(net percentages of banks reporting an increase in loan approval rate, easing of credit standards and higher demand; annual growth rate of loans; %)



Source: Bank lending survey and ECB's Statistical Data Warehouse.

In the first quarter, the surveyed Latvian banks eased their credit standards mostly for loans to large enterprises (see Chart 2). One bank unexpectedly eased its credit standards for loans to enterprises in all segments, while another bank, as expected, eased its credit standards only for large enterprises. In the next quarter, the surveyed Latvian banks intend to continue easing their credit standards primarily for loans to large enterprises (two banks) and – to a lesser degree – for loans to small and medium-sized enterprises (one bank). In the first quarter, credit standards were eased equally for both short-term and long-term loans to enterprises, and this trend may also continue in the second quarter. The rejection rate for loans to enterprises declined in the reporting period (according to one bank).

The main factors contributing to easing of credit standards for loans to large enterprises were the bank's access to market financing, competition from other banks and the bank's risk tolerance (mentioned twice). Improvement in the bank's liquidity position, higher competition in the capital market, improvements in the industry or firm-specific situation and outlook as well as the borrower's creditworthiness, new government support measures to mitigate the adverse impact of the Covid-19 pandemic on the economy were less important factors (mentioned once). Similar factors, except for the competition in the capital market, improvements in the industry or firm-specific situation and outlook as well as the borrower's creditworthiness, explain easing of credit standards for loans to small and medium-sized enterprises. Thus, in the first quarter of 2021 each of the above factors had an impact on credit standards for loans to enterprises in one bank or another (see Chart 3).

Chart 2

CHANGES IN CREDIT STANDARDS FOR LOANS TO ENTERPRISES

(net percentages of banks reporting a tightening of credit standards; %)

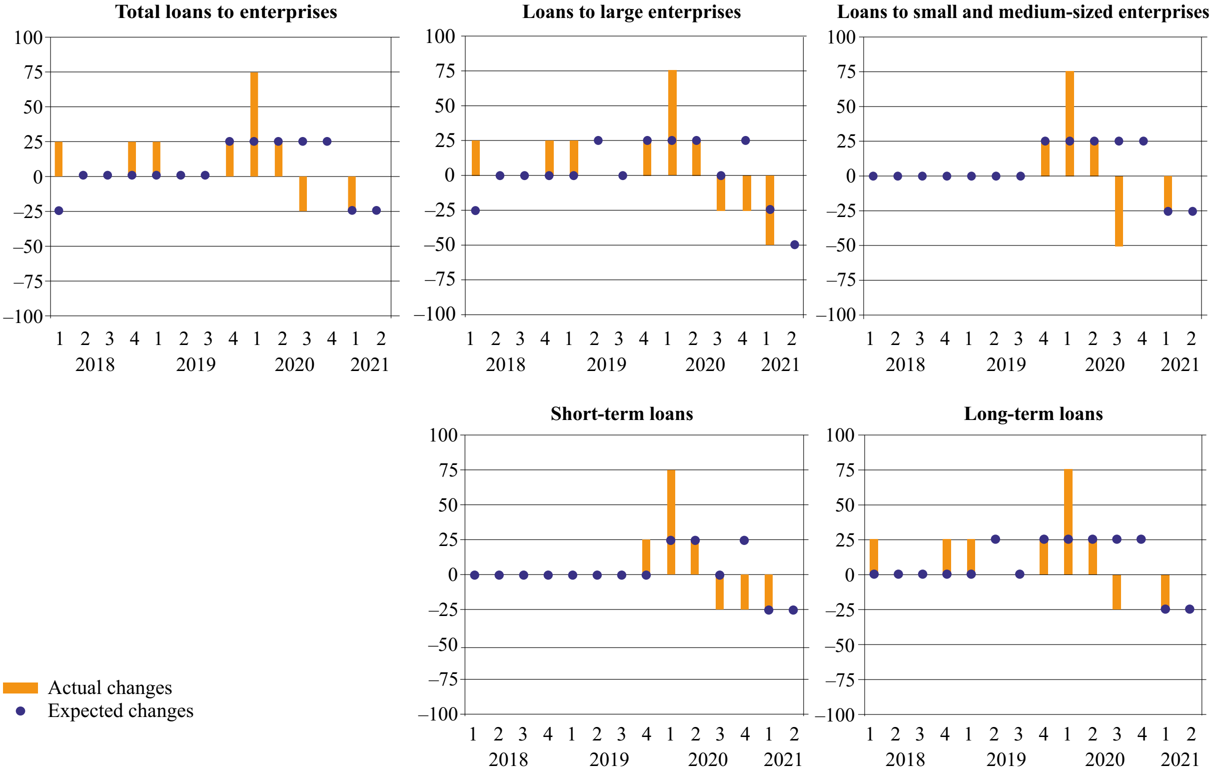
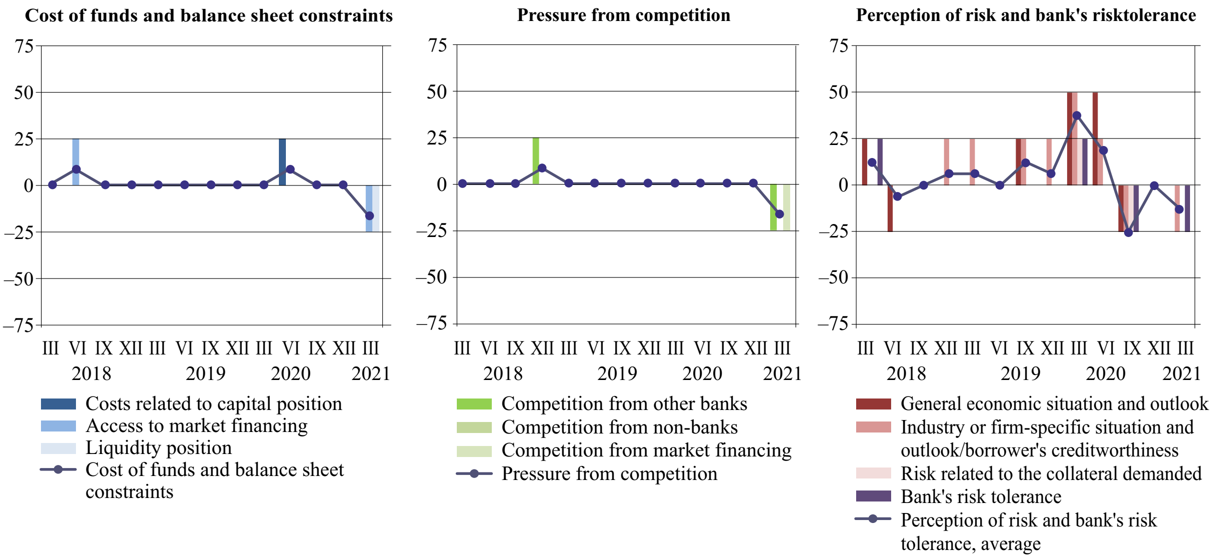


Chart 3

VARIOUS FACTORS CONTRIBUTING TO TIGHTENING CREDIT STANDARDS FOR LOANS TO ENTERPRISES

(net percentages of banks reporting positive factor contributions; %)

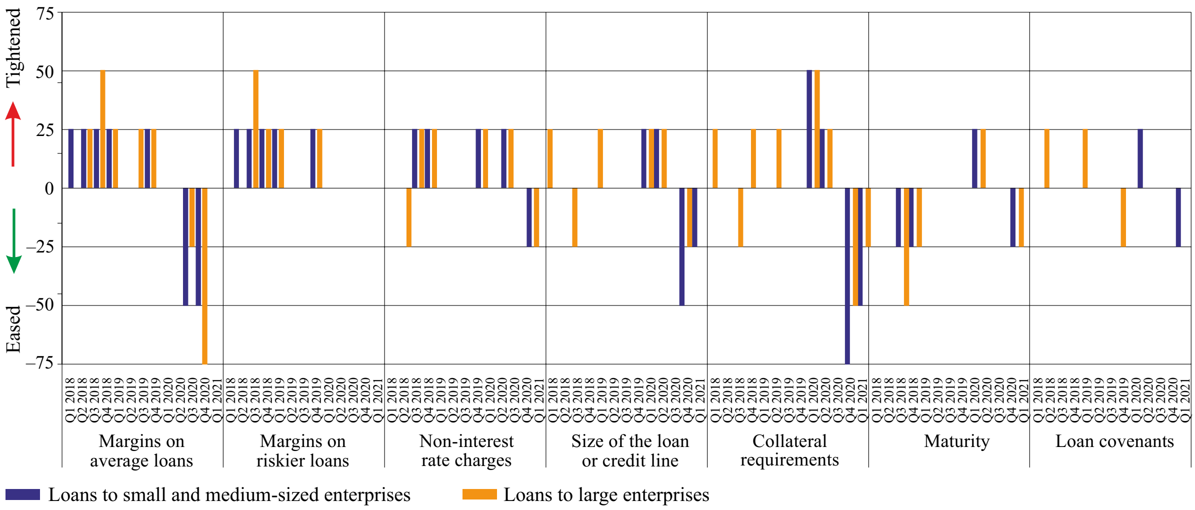


With competition increasing, in the first quarter of 2021 the surveyed Latvian banks continued easing certain terms and conditions for loans to enterprises, in particular, due to narrower margins on loans to large enterprises (see Chart 4). Margins on average loans to enterprises narrowed according to three out of the four surveyed banks: all three banks reduced their margins on loans to large enterprises, and two banks reduced their margins on loans to small and medium-sized enterprises. Other terms and conditions were eased more frequently for loans to small and medium-sized enterprises. In the first quarter, one surveyed Latvian bank reduced its non-interest rate charges and eased its collateral requirements for loans to large enterprises. Meanwhile, two banks eased their collateral requirements for loans to small and medium-sized enterprises. In addition, one of them increased its loan size limits, and the other reduced its non-interest rate charges.

Chart 4

CHANGES IN TERMS AND CONDITIONS FOR LOANS TO ENTERPRISES DEPENDING ON SIZE

(net percentages of banks reporting a tightening of terms and conditions; %)

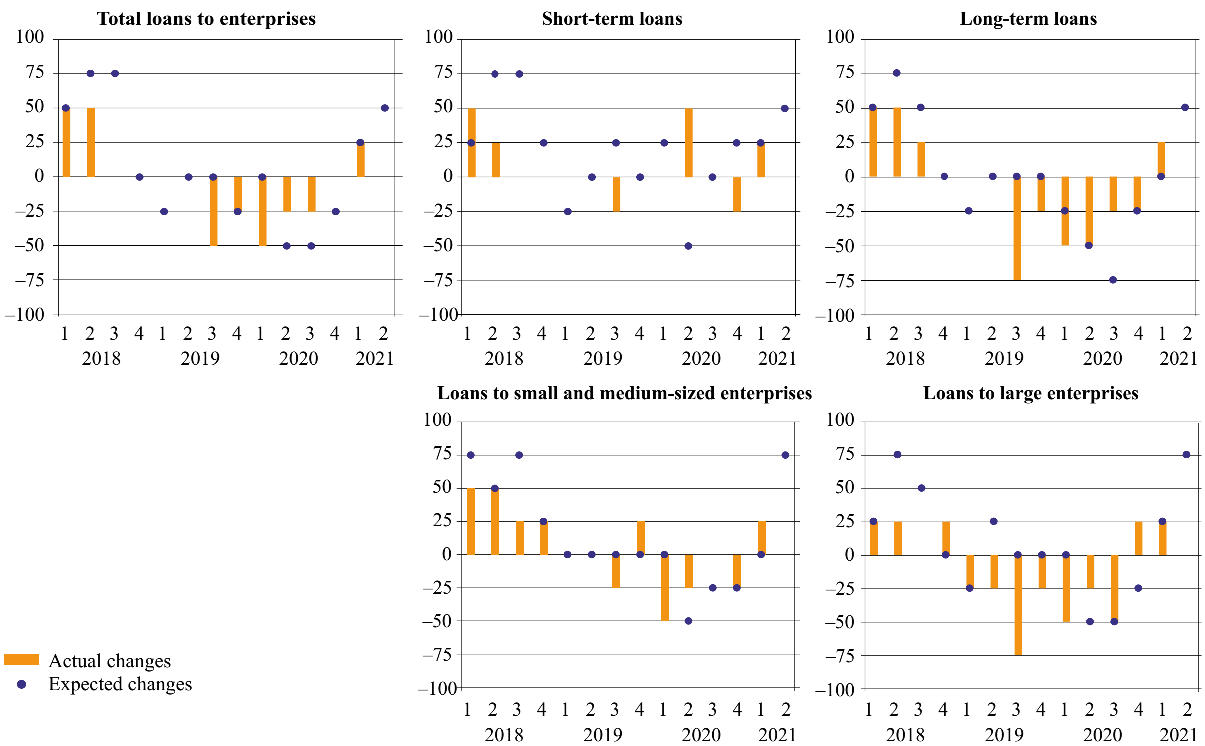


According to one Latvian bank which has eased its credit standards and the widest range of terms and conditions, in the first quarter of 2021 demand for loans to enterprises grew overall and in each corporate lending segment in particular (see Chart 5). In the opinion of the bank, the need for long-term investments, inventories and working capital supported demand, while the interest of enterprises in the issue of debt obligations weighed on it. Two other banks were of the opposite opinion on the demand for loans to small and medium-sized enterprises and long-term investments as a driving factor; therefore, these opinions offset one another. Half of the surveyed Latvian banks expect demand for loans to enterprises to rise overall in the next quarter: three of the four surveyed banks expect growth only in demand for loans to large enterprises, and the same number of banks expect a rise only in demand for loans to small and medium-sized enterprises. Two out of the four surveyed Latvian banks point out that demand for short-term loans to enterprises is likely to grow in the second quarter, and the same number of banks expect growth in demand for long-term loans.

Chart 5

CHANGES IN DEMAND FOR LOANS TO ENTERPRISES

(net percentages of banks reporting an increase in demand for loans; %)



Loans to households for house purchase

With household demand increasing and financing conditions improving, lending for house purchase exhibited robust growth.

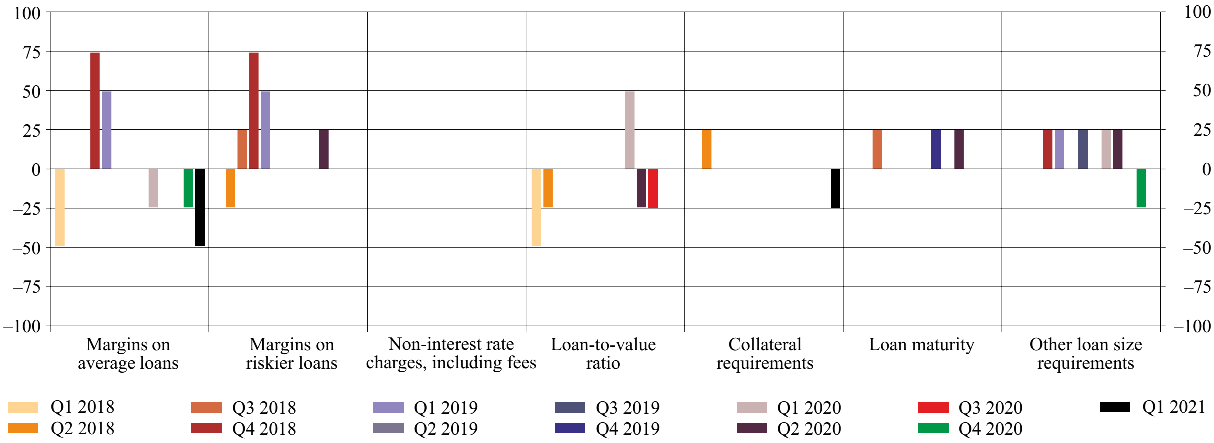
In the previous quarter, one Latvian bank was planning to further ease its credit standards for loans to households for house purchase in the first quarter of 2021; however, these expectations did not materialise. All surveyed Latvian banks pointed out that they did not change their credit standards for loans to households for house purchase in the first quarter of 2021 and reported no intention of doing so in the second quarter of 2021.

With competition among banks tightening, in the first quarter of 2021 three out of the four surveyed Latvian banks eased some terms or conditions for loans to households for house purchase. However, this affected the general terms and conditions only in one bank. Margins on loans to households for house purchase were reduced slightly by two surveyed banks, and collateral requirements were eased by one surveyed bank (see Chart 6).

Chart 6

CHANGES IN TERMS AND CONDITIONS FOR LOANS FOR HOUSE PURCHASE

(net percentages of banks reporting a tightening of terms and conditions; %)

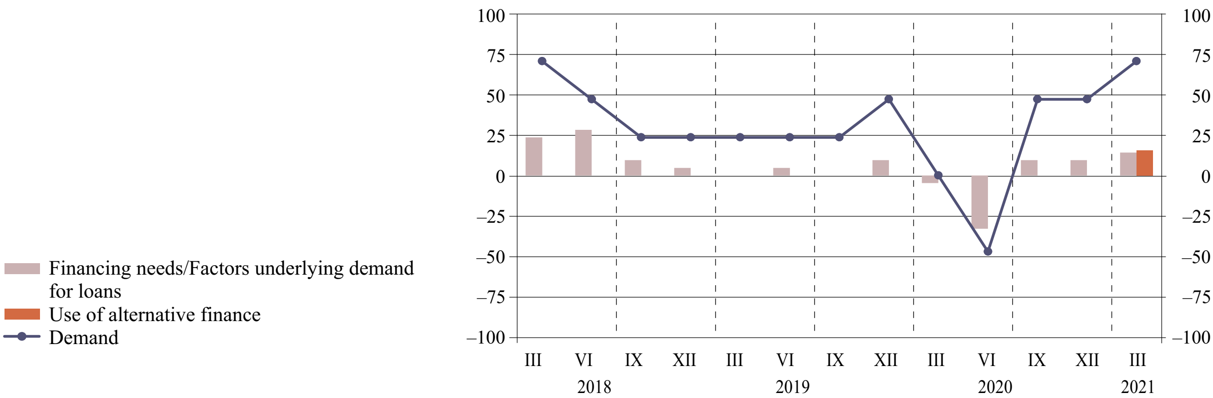


In the first quarter of 2021, the surveyed Latvian banks observed moderate growth in demand for loans to households for house purchase more frequently than in the previous quarter (in three cases; see Chart 7). Two banks explained this growth in demand by an improvement in consumer confidence, one bank attributed it to better housing market prospects, improved availability of households' internal finance for down payment and more favourable conditions in the banking system in general. Three out of the four surveyed Latvian banks expect growth in demand for loans to households for house purchase to continue also in the second quarter of 2021. According to all of the surveyed Latvian banks, the rejection rate for loans to households for house purchase remained unchanged at in the first quarter of 2021.

Chart 7

VARIOUS FACTORS CONTRIBUTING TO DEMAND FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

(net percentages of banks reporting positive factor contributions; %)



Consumer credit and other lending to households

Developments in consumer credit and other lending to households were relatively weaker than those in loans for house purchase, while demand and credit standards remained unchanged.

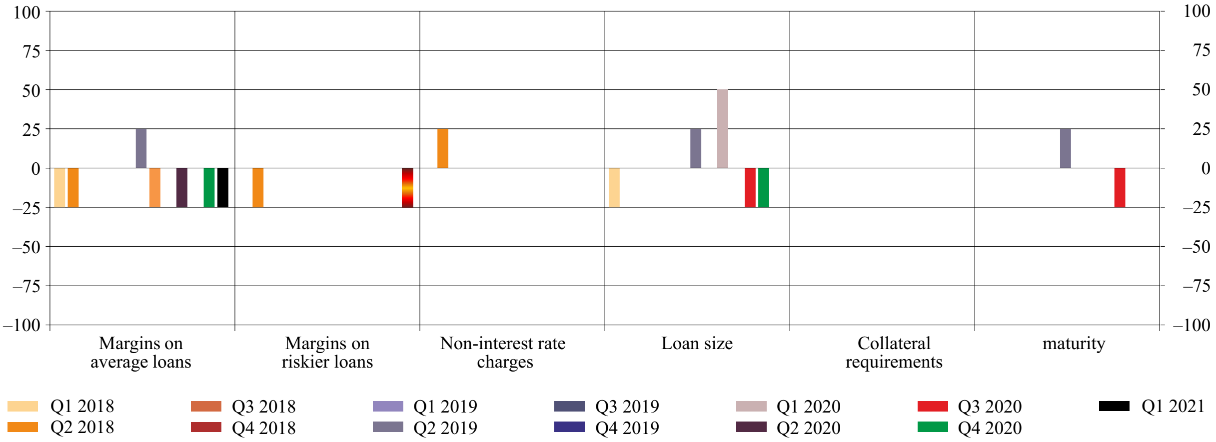
Similarly to loans to households for house purchase, the credit standards of the surveyed Latvian banks for consumer credit and other lending to households also remained unchanged, thus failing to meet the banks' expectations of further easing of credit standards. One surveyed Latvian bank, however, indicated its intention to further slightly ease its credit standards for consumer credit and other lending to households in the second quarter of 2021.

Compared to loans to households for house purchase, easing of terms and conditions for consumer credit and other lending to households was less frequent. In the first quarter of 2021, one Latvian bank reduced its margins on average consumer credit and other loans to households due to competition among banks, and another bank reduced its margins on riskier loans for the same reason (see Chart 8).

Chart 8

CHANGES IN TERMS AND CONDITIONS FOR CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

(net percentages of banks reporting a tightening of terms and conditions; %)



As expected, demand for consumer credit and other lending to households remained unchanged in the first quarter of 2021. The surveyed Latvian banks expect robust demand for consumer credit and other lending to households also in the next quarter. The rejection rate for loans in the respective lending segment remained unchanged in the first quarter of 2021.

Ad hoc questions

In the euro area bank lending survey of April 2021, banks were asked several ad hoc questions concerning the ECB's targeted longer-term refinancing operations (hereinafter, TLTRO III), the ECB's asset purchase programmes, a negative deposit facility rate as well as access to market financing.

Although none of the surveyed Latvian banks participated in TLTRO III operations in December 2020 and in March 2021, three out of four banks may participate in the TLTRO III operations in the future. Two banks reported that the main reason for participation in TLTRO III in the future would be the desire to make extra profit by taking advantage of the favourable conditions of the programme. One of these banks may use TLTRO III funding as a precautionary measure. In the previous six months, Latvian banks used TLTRO III funding for various purposes. Two banks used it for lending to the non-financial private sector. Less frequently, it was also used for local bond and other asset purchases as well as for liquidity holdings in the Eurosystem. In the next six months, two surveyed Latvian banks intend to use TLTRO III funding only for lending to the non-financial private sector. Moreover, the TLTRO III operations influenced – and in the next six months will keep influencing – the financial positions, lending policies and loan sizes of two of the four surveyed Latvian banks: one bank reported growth in its liquid assets, whereas the other bank saw its profitability rise and was able to ease its terms and conditions for loans and increase the size of loans to enterprises.

As regards the ECB's asset purchase programmes, only one Latvian bank believed that, in the last six months, the programmes improved the bank's liquidity position and the market financing conditions, and in the next six months they will continue to improve the bank's liquidity position and may also increase its capital ratio. However, the impact of the ECB's asset purchases on lending was less pronounced than that of the TLTRO III. Only one surveyed bank pointed out that in the last six months the ECB's asset purchases positively affected its loans to enterprises in terms of credit standards, terms and conditions for loans and loan sizes, and they will continue to have a positive impact in the next six months.

As regards the impact of the negative deposit facility rate, all surveyed Latvian banks noted that it reduced their profitability and net interest income in the last six months, and this effect is expected to continue in the next six months. Two banks noted that in the last six months the two-tier system for excess reserve holdings mitigated the negative impact of the deposit facility rate on the banks' profitability and net interest income, and this effect is expected to continue in the next six months. In the last six months, the negative deposit facility rate also had a downward effect on the interest rate on corporate deposits according to one surveyed Latvian bank, and in the next six months a similar effect may be observed in two banks already. In the next six months, due to the negative deposit facility rate, one surveyed Latvian bank may reduce its margins as well as increase the size of loans to enterprises.

Asked about access to market financing, three Latvian banks noted that access to at least one type of financing improved somewhat in the first quarter of 2021. Two banks reported better access to short-term deposits as well as to mid-term and long-term bonds. Access to long-term deposits, money market instruments, short-term bonds, securitisation of loans (each of these types of financing mentioned once) also improved. Access to financing may improve in the next quarter as well. Moreover, next quarter may see improvements in access to short-term deposits, access to bonds of all maturities as well as access to securitisation of loans (each mentioned once).